

## SECURITY INFORMATION

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MEMORANDUM FOR: The Honorable  
 The Secretary of State  
 Washington 25, D.C.

SUBJECT: China.

1. Attached hereto is a copy of a letter to the Secretary of Defense and two enclosed papers on the Far East, which are being submitted pursuant to a recent conversation between Mr. Lovett and the undersigned.

2. It is fully appreciated that some of the statements and conclusions in these papers exceed the scope of an ordinary intelligence estimate. The reason for this is that the NSC has assigned to the Central Intelligence Agency responsibility for the conduct of large-scale operations in the area of China. Hence it is considered appropriate to provide a fully rounded appreciation of the difficulties of carrying out this mandate successfully under existing conditions, and our views, based on the conclusions and recommendations of our operatives in the field, as to possible steps to correct these conditions.

[SIGNED]

WALTER B. SMITH  
Director

Incl (1)

Subj. ltr. to Sec'y of  
Defense, with attachments.

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controlling clique of the KMT has been unwilling to loosen its strangle-hold on the Government. It is probable that this intransigence stems from the belief that maintenance of the status quo gives this clique an exclusive claim to reinheritance of the Mainland as a by-product of U. S. victory in World War III.

Attached are two studies bearing on the basic subject which I suggest be given military staff consideration. One of these represents the views of the Estimates Division of this Agency which, although not an JAC coordinated paper, reflects the most recent estimates of the military intelligence agencies. As will be noted, this paper does not concern itself with the beneficial effects which would result from an improvement of the political situation on Taiwan. The other study which represents the views of the operating divisions of CIA points up the difficulties resulting from the present unsatisfactory political situation and concentrates upon the importance of a housecleaning in Taiwan and a clarification of U. S. policy if significant results are to be achieved.

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These are my personal views, based on conversations with all those in this Agency who are giving consideration to the exploitation of our assets in the Far East. I recommend, however, that the Joint Chiefs of Staff consider this general subject and the attached papers as a matter of urgency for the purpose of amplifying and firming up our present program and, if indicated by nature consideration, producing recommendations which will crystallize our governmental policy toward the strengthening of Taiwan as an anti-Communist base militarily, economically, politically, and psychologically. It seems to me that the self-interest of the United States demands this.

Personnel of CIA are prepared to participate and assist in this study and in the planning which should follow. For this purpose I have arranged to secure the services of General Frank Merrill who, as you know, is experienced in commando-type operations in the Far East and he would head the CIA contribution to any planning syndicate which you may desire to establish.

Sincerely,

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**SIGNED**

Walter B. Smith  
Director

Enclosures (2)

Copy of letter with enclosures;  
The Secretary of State

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The Honorable Robert A. Lovett  
 The Secretary of Defense  
 Washington, D. C.

Dear Mr. Secretary:

In anticipation of the probability of a military cease-fire in Korea, as well as the possibility of a breakdown in negotiations, it becomes important to review our assets in China proper and the effect thereon of either development. A year ago the Chinese Nationalist Government claimed the existence of 1,500,000 guerrillas on the mainland of China, and although we believe that this figure was exaggerated, we know that during the past year the effective action of the Chinese Communist forces has greatly reduced the number of guerrillas. The current CIA estimate is approximately 165,000. A military cease-fire on the Korean peninsula will probably restore freedom of movement to a major portion of Chinese forces now confronting us, and it is to be assumed that the Chinese Communist Government will then take action to intensify the anti-guerrilla campaign.

Another asset is the Chinese Nationalist Forces on Taiwan. Their army now consists of about 450,000 ground troops in fair state of small unit training but with inadequate equipment and in a poor state of combat effectiveness. Their small Navy and Air Force have both deteriorated militarily as a result of lack of equipment and training facilities. These forces will within four years begin to undergo a rapid deterioration through age alone. They, like the guerrillas on the mainland, represent a waning asset which will have to be strengthened, built up, and used within the immediate foreseeable future if we are to get any benefit from them.

The military and economic programs for the support of Taiwan, such as they are, have attained only limited success. This is due in part at least to Nationalist refusal to effect political reform and particularly to the failure of the Nationalist Government to eliminate corruption among its officials. Our support to guerrillas has so far failed to produce the results which had been initially anticipated, due primarily

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to Nationalist reluctance to commit their guerrilla assets to action and secondarily to the difficulty of Chinese Nationalist regular officers of senior grade to adapt themselves to the conditions and requirements of guerrilla warfare.

Recent studies based on personal observation on the spot by several qualified officers serving with this Agency indicate the following:

(a) The Chinese Nationalist forces are not as ineffective potentially as the pessimistic reports made a year ago, by our Service Attaches then on Taiwan, would indicate. Neither are they as effective as the optimistic reports of Americans now employed directly or indirectly by the Chinese Nationalist Government would indicate. My belief is that they can be made effective and that if U. N. policy permitted, and if the Nationalist Government would cooperate effectively, Chinese Nationalist divisions could be rotated to Korea and might serve very creditably. It is the opinion of General Wyman and other qualified observers that the presence of a Nationalist division in Korea in contact with former Nationalist troops now serving the Communist Government would have a marked psychological effect.

(b) The existing scattered and relatively ineffective guerrilla forces on the Mainland, if well led, armed, and given a political rallying point, could be made a potent weapon and might contain much stronger Chinese Communist forces.

(c) The presence on Taiwan of a Chinese Nationalist force gaining in strength as the result of training, improved morale, and improved equipment, would, particularly if its combat training should include repeated and aggressive raids and temporary thrusts onto the Mainland, immobilize for coastal defense a considerable proportion of the better troops of the Chinese Communist Army and a large quantity of its military transport. The Nationalist troops on certain offshore islands are doing this at the present time on a small scale and the threat could be intensified.

In my opinion if we are to obtain the full effect of the possibilities enumerated above, two things are required. The first is a change in our own policy with respect to employment of Chinese Nationalist forces and a more aggressive approach to the use of guerrillas. Second: political reform of the Chinese Nationalist Government is essential. So far U. S. efforts to encourage such reform have been almost without success as the

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